135350-2

The Manufacturers Hanover
Financial Digest
Economic Commentary, Selected Financial Data, and Business Indicators

MONDAY, MARCH 17, 1986 VOLUME XXIII, NUMBER 7

The Dollar Takes A Tumble . . .

Only one year ago, the dollar was invincible, soaring higher and higher in the foreign exchange markets at a breakneck pace, and shattering record levels almost daily against virtually every major currency. By mid-February of last year, it had climbed to 3.47 German marks, pierced the 10 French franc level, catapulted to over 2,200 lira and was rapidly approaching parity with the once-mighty British pound—to the chagrin of domestic exporters, but to the joy of tourists who flocked to Europe in record numbers for bargains. Since then, however, the dollar has experienced a rapid and virtually unprecedented decline, falling to its lowest level since November, 1981 against the mark, while flirting with its record low of 175.50 yen reached in October, 1978.

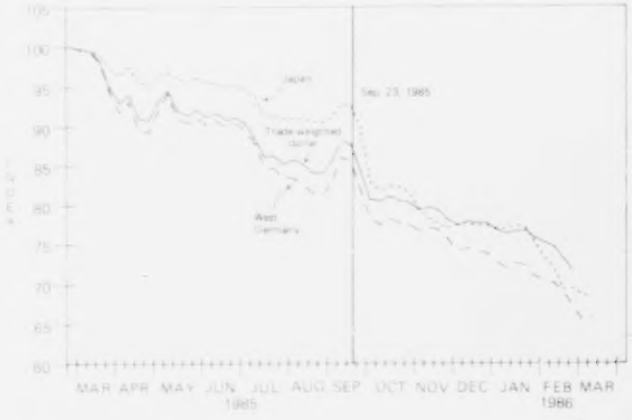
Perhaps the most important reason for the dollar's rapid descent has been a fundamental shift in the U.S. Administration's stance towards it. Whereas a year ago, Washington was championing the dollar's strength as an indication of market confidence in the vitality and dynamism of the U.S. economy, the Administration now has adopted a policy of talking down the dollar. Such a change was precipitated by the ballooning merchandise trade deficit—which last year reached a record $145 billion, or four times the size of the red-ink total of $36 billion posted at the beginning of this decade.

With domestic manufacturers finding themselves increasingly unable to compete effectively with imports, as well as unable to export, the Administration began to give high priority to reducing the dollar's value in order to stimulate exports and halt the rising tide of protectionist sentiment in Congress. One result, initiated by Treasury Secretary James Baker, was last September's Group of Five (G-5) meeting in which France, Germany, Great Britain, Japan, and the U.S. pledged to reduce the value of the dollar. Despite initial skepticism in the foreign exchange markets, the results of that meeting have gone beyond expectations. Paced by a 26 percent drop against the yen, and a 23 percent decline against the Deutschemark, the trade-weighted dollar has tumbled by some 18 percent since mid-September alone—and now stands nearly 30 percent below its February 1985 high (see chart).

. . . But It's No Panacea . . .

With that accomplished, the question now becomes whether or not the decline in the dollar will help to narrow the yawning trade gap. Unfortunately, the answer is not all that clear-cut. For the dollar's drop may not be the panacea that many in the Administration hope it will be. In this regard, recent comments by Federal Reserve Chairman Paul A. Volcker stressing the need for faster growth overseas are extremely relevant. It was rapid U.S. economic growth in 1983-1984, along with the rise in the value of the dollar, which laid the seeds for the present imbalance in our trade position, particularly as growth in many of our major markets was sluggish during this period. Exports, in fact, peaked in 1981 at $234 billion, and four years later were still nearly nine percent below that level. It is no coincidence that this period has been marked by extremely sluggish growth overseas.

U.S. DOLLAR DEPRECIATION VS. SELECTED CURRENCIES
(WEEK ENDING FEBRUARY 27, 1985 = 100)



Germany's economy, for instance, expanded by a paltry annual average of 1.2 percent between 1981 and 1985, while France's increase was at a similar pace and Italy crawled along at an annual average rate of less than one percent. Meanwhile, a good chunk of Latin America and many other developing nations saw their growth halted by weak commodity prices, increased servicing costs on their external debt, and rising protectionism in industrial country markets.

Copyright 1986
Manufacturers Hanover
270 Park Avenue, New York, N.Y. 10017

There are, however, some reasons for cautious optimism about European growth prospects as a result of the steep fall in oil prices, the decline of the dollar and falling interest rates. Inflationary pressures have been muted, with price stability likely in Germany, the Netherlands and Switzerland while inflation rates in France, Austria, Belgium and Denmark should be below three percent by yearend. Low inflation and better real purchasing power, thus spurring consumer spending, Germany should lead European growth. This would be further made even more likely as a result of the German central bank's recent, modest reduction in its discount rate. Weak growth in Italy, the U.K. and France should pick up as well.

However, by the standards of the 1960s and early 1970s, the pace of business is likely to remain rather tepid, as double-digit rates of unemployment constrain activity levels throughout much of industrial Europe.

. . . For The Trade Deficit

While this could boost U.S. export prospects in Europe, among the Organization of Petroleum Exporting Countries (OPEC) and Latin America, in contrast, they remain decidedly weak. This is because of soft commodity prices and austerity policies designed to curb inflation. During the 1970s and early 1980s, these countries were particularly lucrative markets for U.S. exporters.

Selected Federal Reserve Data

(Averages of Daily Figures, Billions of Dollars)

	Week Ending 3/12/86	Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	183.389	307	+16.822
Loans to Depository Inst.	754	+ 100	1.284
Float	761	+ 404	+ 277
Total Reserve Bank Credit	200.161	+ 488	+18.864
Treasury Deposits with			
Federal Reserve Banks	5.430	981	- 565
Currency in Circulation	191.432	+ 1.110	+13.002
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	13.901	+ 606	+15.841
	3/12/86		
Member Bank Reserves			
Total Reserves Held	45.731	+ 776	+ 5.654
Excess (Deficiency)	969	- 127	+ 127
Net Free Reserves	830	+ 238	+ 539
Monetary Aggregates†		Week Ago*	Year Ago*
M1 (3/3/86)	631.8	+ 8.1‡	+ 10.8‡
M2 (February '86)	2,677.0	+ 4.1	+ 6.4
M3 (February '86)	3,739.8	+ 7.3	+ 6.8
Domestic Nonfinancial Debt (4th Q'85)	6,667.9	+ 19.2	+ 14.7

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡4-Week moving average.

New York Money Market

Offering Rates 3/14/86	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	6.76%	6.90%	6.97%
* Federal Agencies	6.73	6.74	6.72
* Municipal Notes–High Grade (46% Taxable Equivalent)	7.78	8.06	8.33
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	7.15	7.15	7.15

‡Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	7.20%	Mar.	7.20%
15- 29 days	7.20	Apr.	7.15
30- 59 days	7.15	May	7.05
60- 89 days	7.10	Jun.	7.00
90-179 days	7.05	Jul.	6.97
180-239 days	7.00	Aug.	6.93
240-270 days	7.00		

‡Industrial Paper–Prime			
30- 89 days	7.05%	†Federal Funds	
90-120 days	6.50	Effective Rate	7.28%

‡Discount rates. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4Q '85	$ 4,062	$ 4,017	$ 3,853
Gross National Product (1982 Dollars)*	4Q '85	$ 3,575	$ 3,584	$ 3,516
Percent Change, Annual Rate	4Q '85	1.2	3.0	0.6
Change in Consumer Prices*	Jan. '86	2.6%	4.8%	2.4%
Change in Producer Prices*	Feb. '86	19.2	- 8.4%	0.0%
Civilian Employment (Thousands of Persons)†	Feb. '86	108,561	108,955	106,587
Unemployment as % of Civilian Labor Force†	Feb. '86	7.3%	6.7%	7.3%
Personal Income*	Jan. '86	$ 3,465	$ 3,386	$3,217
Leading Indicators Composite Index (1967=100)†	Jan. '86	173.0	174.0r	166.3
Industrial Production Index (1977=100) †	Feb. '86	125.1	126.5	123.7
Net Change in Consumer Installment Credit †	Jan. '86	$ 5.48	$ 5.62r	$ 7.22
U.S. Merchandise Trade Balance †	Jan. '86	$ 15.36	$ 15.15	$ 11.57
Plant and Equipment Expenditures*	1Q '86	$402.13(e)	$388.98(a)	$371.16
Private Housing Starts (Thousands of Units)*	Jan. '86	2,080	1,804	1,804
New Construction Expenditures*	Jan. '86	$ 361.6	$ 354.0r	$ 341.0
Total Business Inventories †	Jan. '86	$ 588.1	$ 584.0r	$ 575.0
Total Business Sales †	Jan. '86	$ 433.5	$ 435.0r	$ 417.4

*Seasonally adjusted annual rate. †Seasonally adjusted. r=Revised figure. r=Revised. e=Anticipated.

Whereas exports to Mexico, for example, averaged nearly $15 billion annually during the 1980-82 period, they have since slumped, averaging just $11½ billion annually during the three years since then. To be sure, while other industrial nations face a similar problem, none are as dependent upon these markets as the U.S. is. Further burdening export prospects are tumbled wheat prices as a result of the worldwide grain glut. Last year, 14 percent of all U.S. exports were grain.

Thus, the decline in the dollar appears to be no panacea. It should, of course, help to stabilize the trade deficit, but the red ink totals will remain sizable. In this regard, falling oil prices and somewhat faster growth in Europe are to be welcomed. But a much more favorable global economic environment is necessary in order to significantly narrow the trade deficit, forestall a rise in protectionist sentiment, and enable U.S. exporters to take full advantage of the decline of the dollar. At a minimum, such an environment requires a pronounced pickup in world trade growth and a stepped-up flow of financial resources to the highly indebted, advanced developing countries. Hopefully, the seeds for such growth were sown earlier this month in the coordinated reduction of central bank discount rates by several major industrial nations—the harvest from which may become apparent later this year. M

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (2/26/86)	164,686	+ 138	+ 1,406
New York City (2/5/86)	36,196	– 257	+ 2,196
Commercial Paper (2/5/86)	361,644	+ 111	+48,813

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/26/86)	257,749	+ 1,170	+ 4,493
New York City (2/5/86)	58,961	+ 586	– 3,380

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/26/86)	722,473	– 2,896	+ 63,988
New York City (2/5/86)	164,010	+ 7,088	+ 20,529

Financial Markets

	Friday 3/14/86	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.00	– .04	– 1.96
180-Day Bills†	6.35	– .06	– 2.61
Longest Bills†	6.99	– .12	– 3.00
Recent Issues:			
8s 2/29/88	7.11	– .15	
8¾s 12/31/89	7.29	– .18	
8⅞s 2/15/96	7.61	– .30	
9¼s 2/15/16	7.96	– .26	
Municipals:			
Bond Buyer–20 Bond Index* (3/13/86)	6.88%	+ .01	– 2.87
Blue List Total ($ Million)	$1,757	+$ 281	+ $ 53
30-Day Visible Supply ($ Million)	$3,810	+$ 984	– $ 642
Total	$4,376	+$1,265	– $ 589
Corporates:			
Moody's Aa Composite (3/13/86)	9.45	.13	– 3.48
30-Day Visible Supply ($ Million)	$2,810	+$1,565	+ $2,520
Stocks:			
Dow Jones Averages			
Industrials	1,937.34	+ 93.11	+ 545.92
Transportation	816.24	+ 24.90	+ 214.05
Utilities	184.47	+ 7.64	+ 42.47
65 Stocks	708.50	+ 31.47	+ 199.31
N.Y.S.E. Composite Index	126.17	+ 5.79	+ 33.71
N.Y.S.E. Avg. Daily Vol. for Week (000's)	126,518	+17,726	+ 78,982

* 46% Taxable equivalent 12.76%.

† Bond equivalent

International Rates

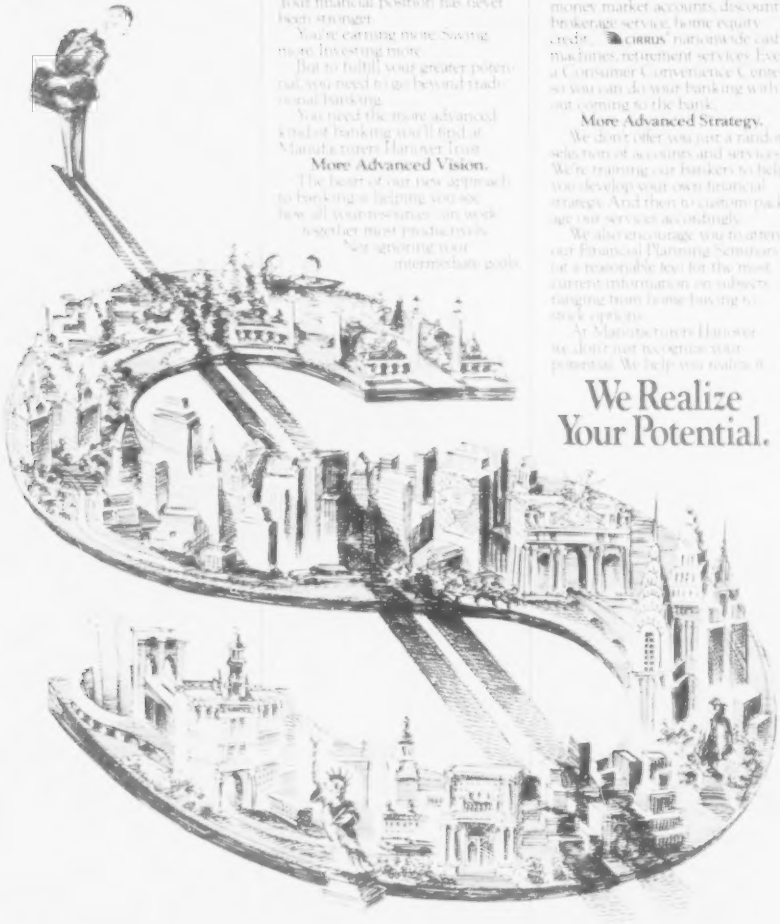
EURODOLLAR DEPOSIT RATES (bid)	Friday 3/14/86	Week Ago
Overnight	7.31%	7.38%
1 month	7.50	7.50
3 month	7.38	7.44
6 month	7.38	7.44
1 year	7.38	7.44

EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	8.08%	8.40%
Long Term (7 to 15 yrs.)	8.58	8.80

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/14/86)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02162	46.25
Canada	.7164	1.3958
Denmark	.1181	8.4675
France	.1439	6.9513
Germany	.4426	2.2595
Italy	.0006470	1538.50
Japan	.005666	176.50
Mexico	.002130	469.50
Netherlands	.3920	2.5513
Switzerland	.5272	1.8968
U.K.	1.4668	.6818

Your Potential Is Enormous. But You Need A New Kind Of Banking To Help You Realize It.



Your financial position has never been stronger.

You're earning more. Saving more. Investing more.

But to fulfill your greater potential, you need to go beyond traditional banking.

You need the more advanced kind of banking you'll find at Manufacturers Hanover Trust.

More Advanced Vision.

The heart of our new approach to banking is helping you see how all your resources can work together most productively.

Not ignoring your intermediate goals

but seeing beyond them to the day when you will have just what you need to live just the way you want.

More Advanced Services.

To help you manage your money more effectively, we provide money market accounts, discount brokerage service, home equity credit, CIRRUS nationwide cash machines, retirement services. Even a Consumer Convenience Center so you can do your banking without coming to the bank.

More Advanced Strategy.

We don't offer you just a random selection of accounts and services. We're training our bankers to help you develop your own financial strategy. And then to custom-package our services accordingly.

We also encourage you to attend our Financial Planning Seminars for a reasonable fee for the most current information on subjects ranging from home buying to stock options.

At Manufacturers Hanover we don't just recognize your potential. We help you realize it.

We Realize Your Potential.

MANUFACTURERS HANOVER
The Financial Source™ Worldwide.

The Manufacturers Hanover
Financial Digest

Bank Window, Church St. Station
New York, New York 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585